

## Message Text

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02 PA-01

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OPIC-03 LAB-04 SIL-01 IGA-02 SAJ-01 AGR-05 TAR-01

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AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

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AMEMBASSY WARSAW

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E.O. 11652: N/A

TAGS: ECON, ETRD, CZ

SUBJECT: 1976 CZECHOSLOVAK ECONOMIC PLAN

1. BEGIN SUMMARY: THE 1976 CZECHOSLOVAK ECONOMIC PLAN CALLS FOR A REDUCED RATE OF GROWTH, BETTER CONTROL OF CAPITAL CONSTRUCTION, AND A SHIFT IN TRADE TOWARD CEMA AS THE ECONOMY ENTERS INTO WHAT PROMISES TO BE A DIFFICULT AND DEMANDING FIVE YEARS. END SUMMARY.

2. SEVERAL RECENT ARTICLES IN HOSPOKARSKE NOVINY AND RUDE PRAVO PROVIDE SOME OF THE MAIN OUTLINES OF THE ECONOMIC PLAN FOR 1976.

(THE SIXTH FIVE-YEAR-PLAN FOR 1976-1980 IS STILL BEING DRAFTED,

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AND IS NOT DISCUSSED PER SE.) THE 5.5 PERCENT RATE OF GROWTH OF

INDUSTRIAL PRODUCTION PLANNED FOR 1976 FALLS SHORT OF THE 1974 FIGURE OF 6.2 PERCENT, THE PLAN FIGURE FOR 1975 OF 6.3 PERCENT, AND THE RESULTS ACHIEVED THROUGH NOVEMBER OF 6.8 PERCENT. THE ENGINEERING INDUSTRY IS SLATED TO INCREASE OUTPUT BY 8.3 PERCENT, THE CHEMICAL INDUSTRY, LED BY PETROCHEMICALS AND PULP AND PAPER, BY 8.4 PERCENT, AND BUILDING MATERIALS BY 7.7 PERCENT. AGRICULTURAL OUTPUT IS SUPPOSED TO INCREASE BY 4.5 PERCENT, BUT IMPORTS OF ANIMAL FODDER FROM THE WEST WILL ALSO INCREASE IN 1976.

3. FOREIGN TRADE TURNOVER, ACCORDING TO THE PLAN, SHOULD INCREASE 5.7 PERCENT OVERALL, AND 7 PERCENT WITH SOCIALIST COUNTRIES. BECAUSE SOCIALIST COUNTRIES ACCOUNT FOR ROUGHTLY TWO-THIRDS OF TOTAL FOREIGN TRADE TURNOVER, THIS MEANS TURNOVER WITH THE WEST WILL NOT INCREASE. THE PLAN CALLS FOR AN ELEVEN PERCENT INCREASE IN EXPORTS OF ENGINEERING GOODS TO SOCIALIST COUNTRIES, AND WHAT IT DESCRIBES AS VERY DEMANDING, BUT UNQUANTIFIED INCREASES IN EXPORTS OF CHEMICALS AND ENGINEERING GOODS TO WESTERN COUNTRIES.

4. THE GOVERNMENT PROMISES PERSONAL CONSUMPTION WILL RISE IN 1976 BY 4.3 PERCENT, AND RETAIL TRADE BY 4.7 PERCENT, MAINTAINING RETAIL PRICE STABILITY. SALES OF PRIVATE CARS WILL INCREASE 8 PERCENT, AND HOME APPLIANCES 10 PERCENT. THE PLAN PROVIDES FOR 130,000 NEW APARTMENTS, INCLUDING 10,400 IN PRAGUE. BUT THESE REPORTEDLY WILL BE RESERVED FOR NEWCOMERS TO THE CITY, THUS NOT RELIEVING THE CRITICAL HOUSING SHORTAGE FOR FAMILIES ALREADY LIVING IN PRAGUE.

5. CAPITAL CONSTRUCTION IS CITED AS THE KEY PROBLEM OF THE NATIONAL ECONOMY. TOO MANY LARGE PROJECTS ARE RUNNING PAST DEADLINES, AND NEW POWER AND PULP AND PAPER PLANTS THAT HAVE BEEN STARTED UP ARE PRODUCING WELL BELOW THEIR DESIGN CAPACITIES. RATHER THAN PERMITTING NEW PROJECTS TO BE UNDERTAKEN, THE EMPHASIS IS TO BE PLACED ON FINISHING THOSE NOW UNDERWAY. MODERNIZATION OF OLD PLANTS IS TO BE

THE PREFERRED SOLUTION IN FUTURE, AS OPPOSED TO COMPLETELY NEW PLANTS, BECAUSE MODERNIZATION REQUIRES FEWER BUILDING MATERIALS, AND BECAUSE THE CZECHOSLOVAKS BELIEVE MODERIZATION IS QUICKER LIMITED OFFICIAL USE

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TO CARRY OUT AND PAYS FOR ITSELF FASTER. (COMMENT: THE DECISION TO EMPHASIZE THE MODERNIZATION OF OLD PLANTS, RATHER THAN BUILDING NEW ONES, IS LIKELY TO FAVOR TRADITIONAL WEST EUROPEAN SUPPLIERS, IN PARTICULAR THE WEST GERMANS AND AUSTRIANS. PLACING A NEW MACHINE OR PRODUCTION LINE IN AN EXISTING PLANT REQUIRES CONTINUAL COORDINATION BETWEEN CZECHOSLOVAK DESIGNERS AND FOREIGN SUPPLIERS, WHICH IS EASIER AND CHEAPER FOR FIRMS LOCATED A FEW HOURS AWAY BY CAR RATHER

THAN MANYHOURS AWAY BY AIRPLANE.)

6. DOMESTIC CONSUMPTION OF FUEL AND POWER IS TO INCREASE BY 2.3 PERCENT IN 1976 OVER 1975. INCREASED DOMESTIC PRODUCTION OF COAL WILL PROVIDE A MAJOR SHARE OF THE INCREMENT, MADE POSSIBLE PARTLY BY STEPPED-UP IMPORTS OF MODERN MINING EQUIPMENT (PROBABLY CEMA-SOURCED). POWER PLANTS WITH A CAPACITY OF 800 MW ARE PLANNED TO BE PUT INTO OPERATION IN 1976, PROVIDING AN INCREASE IN TOTAL GENERATING CAPACITY OF 6.8 PERCENT. (THE PRESS ANNOUNCED ON DECEMBER 18 THAT IN 1976 THE USSR WILL SUPPLY CZECHOSLOVAKIA "OVER 16 MILLION TONS OF CRUDE OIL AND PETROLEUM PRODUCTS;" 1975 SUPPLIES WERE 15.5 MILLION TONS OF CRUDE, AND 360,000 TONS OF REFINED PRODUCTS.)

7. COMMENT: DETAILED PLAN FIGURES WERE NEVER PUBLISHED FOR 1975; IT IS THEREFORE EXTREMELY DIFFICULT TO MAKE CONCRETE COMPARISONS OF THE TWO YEARS. THOUGH FINAL RESULTS FOR 1976 MAY EXCEED THE GOALS OF THE PLAN, AS IN 1975, THE CZECHOSLOVAKS MUST OVERCOME AN INCREASINGLY AGING INDUSTRIAL PLANT, AND ACUTE SHORTAGE OF LABOR, THE FALLING COMPETITIVENESS OF THEIR PRODUCTS ON DOMESTIC, CEMA, AND WESTERN MARKETS, AND THE DIFFICULTIES IMPOSED ON THEIR FOREIGN TRADE BY INFLATION AND RECESSION IN THE WEST. WE JUDGE THAT THE LOWERING OF PLANNED INDUSTRIAL PRODUCTION BY ALMOST A FULL PERCENTAGE POINT REFLECTS A SOBER ASSESSMENT OF THE MAGNITUDE OF THE PROBLEMS

FACING THE HEAVILY INDUSTRIALIZED CZECHOSLOVAK ECONOMY OVER THE NEXT FEW YEARS. MIDDLE-LEVEL ECONOMIC PLANNERS HAVE PREDICTED FOR SOME TIME THAT THE SUCCESSFUL FULFILLMENT OF THE 1976-1980 PLAN WOULD BE MUCH MORE DEMANDING THAN FOR THE 1970-1975 PLAN, AND HAVE COMPLAINED THAT THE LEADERSHIP WAS REFUSING TO FACE FACTS. IT IS NOTEWORTHY THAT THESE LIMITED OFFICIAL USE

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CONCERNS HAVE APPARENTLY BEGUN TO REACH THE POLICY-MAKING LEVEL.  
PERRY

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## Message Attributes

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